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The Wendy's Company (WEN) Q4 2025 Earnings Call Transcript

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Q4: 2026-02-13 Earnings Summary

Insights

EPS of \$0.16 **beats by \$0.02** | Revenue of \$542.97M (-5.45% Y/Y) **beats by \$6.25M**The Wendy's Company ([WEN](#)) Q4 2025 Earnings Call February 13, 2026 8:30 AM EST

Company Participants

Aaron Broholm - Head of Investor Relations

Ken Cook - CFO & Interim CEO

Suzanne Thuerk - Chief Accounting Officer

Conference Call Participants

David Palmer - Evercore ISI Institutional Equities, Research Division

Jake Bartlett - Truist Securities, Inc., Research Division

Margaret-May Binshtok - Wolfe Research, LLC

Brian Mullan - Piper Sandler & Co., Research Division

Jeffrey Bernstein - Barclays Bank PLC, Research Division

Danilo Gargiulo - Bernstein Institutional Services LLC, Research Division

Dennis Geiger - UBS Investment Bank, Research Division

Gregory Francfort - Guggenheim Securities, LLC, Research Division

James Salera - Stephens Inc., Research Division

Andrew Charles - TD Cowen, Research Division

Lauren Silberman - Deutsche Bank AG, Research Division

Presentation

Operator

Good morning. Welcome to The Wendy's Company Earnings Results Conference Call [Operator Instructions] Thank you. You may begin your conference.

Aaron Broholm

Head of Investor Relations

Good morning, and thank you for joining our fiscal 2025 fourth quarter earnings conference call. After this brief introduction, Ken Cook, Interim Chief Executive Officer and Chief Financial Officer, will provide a business update; and then Suzie Thuerk, Chief Accounting Officer and Global Head of FP&A, will review our fourth quarter results, share capital allocation priorities and our 2026 outlook. From there, we will open up the line for questions.

Today's conference call and webcast includes a presentation, which is available on our Investor Relations website, ir.wendys.com. Before we begin, please take note of the safe harbor statement that appears at the end of today's earnings release. This disclosure reminds investors that certain information we discuss today is forward-looking and reflects our current expectations about future plans and performance. Various factors could affect our results and cause those results to differ materially from the projections set forth in our forward-looking statements.

Also, some of today's comments will reference non-GAAP financial measures. Investors should refer to our reconciliations of non-GAAP financial measures to the most directly comparable GAAP measure at the end of this presentation or in today's earnings release. If you have questions following today's conference call, please contact me. I will now hand the call over to Ken.

Ken Cook

CFO & Interim CEO

Thank you, Aaron, and good morning, everyone. I want to begin by recognizing our franchisees, restaurant teams and company employees for their ongoing commitment to the Wendy's brand. Together as One Wendy's, we are strengthening the foundation to deliver long-term profitable growth for the company and our franchisees. This morning, I'll start by discussing our fourth quarter results and full year highlights, then provide an update on Project Fresh. And lastly, I'll share our 2026 outlook before passing it over to Suzie to talk through the financials in more detail.

Starting with the fourth quarter. While results were in line with our expectations, we know that we have a lot of work to do to improve performance. With Project Fresh underway, we have the right plan in place to strengthen our U.S. business. As we shared on our last earnings call, we expected fourth quarter system-wide sales to be down significantly, and they were. Global system-wide sales declined 8.3%, driven by our U.S. business, where marketing spend was down significantly as a result of front-end loaded ad spending in 2025 and sales trends throughout the year, in addition to a tough comp with our SpongeBob collaboration in the prior year and our decision to shift the launch of our new chicken sandwiches into 2026 to ensure excellent execution.

A bright spot for the U.S. was the rollout of our chicken tenders and new sauce lineup, which delivered strong customer satisfaction scores, demonstrating the power of focused execution. Turning to our international business. Performance remained strong with system-wide sales up 6.2% in the fourth quarter, its 21st consecutive quarter of growth. International expansion remains a key priority, and we continued our momentum, opening 59 new locations in the fourth quarter. New restaurant openings came from key stronghold markets such as Canada and Mexico as well as new markets such as Armenia and Scotland, both of which delivered strong sales following their launch. From a profitability perspective, total company adjusted EBITDA was \$113.3 million and adjusted EPS was \$0.16.

Turning to our full year performance. 2025 was a challenging year, but it was also an important year as we began laying the foundation to rebuild. Global system-wide sales declined 3.5%, driven by U.S. same-restaurant sales, highlighting the need for change across many areas of our business, including heightened focus on both operations and marketing effectiveness. We are encouraged by the operational improvements throughout our U.S. company-operated restaurants, which are making a difference for our customers.

These efforts have driven increases in customer satisfaction scores, including improvements in accuracy, friendliness and overall satisfaction. And same-restaurant sales at U.S. company-operated restaurants outperformed the broader U.S. system by 310 basis points. Many franchisees have already begun implementing similar improvements, and we expect adoption to accelerate throughout 2026. We also made significant progress scaling our digital business throughout 2025 with U.S. digital sales growing 12.4% versus the prior year and bringing our full year U.S. digital mix to an all-time high of 20%.

We've continued to make improvements to the Wendy's app, including a redesigned home screen and gamification features, which drove higher customer engagement and record conversion rates. Next, our international business continued to be a strong growth engine throughout the year, delivering an 8.1% increase in system-wide sales with growth across all regions and 159 new restaurant openings. Net unit growth was up over 9% with 121 net new restaurants in 2025, marking a new record in the history of our international business, a clear sign that our international strategy is working and that investments in on-the-ground local resources, including regional franchisee recruiting, marketing and the globalized supply chain are delivering benefits.

We achieved growth in both existing markets like Canada and Mexico as well as entry into 7 new markets, including Australia and Romania, expanding our total number of international markets from 31 to 38. This is a meaningful proof point that the Wendy's brand resonates across the globe as we execute our globally great locally loved strategy. We also secured new development agreements to build a total of 338 new restaurants that will drive international growth in the years to come.

Turning to our cash flow and capital strategy. We generated \$345 million of cash flow from operations in the year. We optimized our capital deployment to match our growth strategy by reducing U.S. build-to-suit spend by over \$20 million in the year as we shifted our focus to profitable AUV growth. As a result, we delivered \$205 million of free cash flow for the full year. Returning cash to shareholders also remains a key priority, and we returned \$330 million to shareholders through dividends and share repurchases, up more than \$48 million from the prior year.

Lastly, we established our One Wendy's approach to the business and are actively working to strengthen the system by focusing on franchisee economics and improving the customer experience. Over the last year, we've learned a great deal. We've invested in deeper data and insights on our customers, and we've improved visibility to restaurant level performance. We now have a clear picture of what needs to improve in our marketing, menu and operations and how to optimize the store footprint within our system.

Project Fresh is our turnaround strategy to clearly address these issues, and we are implementing it with urgency. 2026 will be a rebuilding year for Wendy's. We are making the right decisions to strengthen our foundation for the long term. Project Fresh is structured around 4 strategic pillars: brand revitalization, operational excellence, system optimization and capital allocation. Together, these initiatives will strengthen the business and accelerate our progress in the years ahead.

Let me take a moment to share some of the specific actions underway. The first pillar of Project Fresh is revitalizing the brand to reestablish Wendy's as the highest quality choice in QSR, which centers around improving how we connect and engage with customers in more relevant and distinctive ways. Our focus this year is restoring relevance and rebuilding trust with customers through disciplined execution and marketing. To understand exactly what our customers are looking for, we completed a comprehensive consumer segmentation study that used a needs-based approach to identify the key drivers that influence when, why and where consumers choose to eat.

We've pinpointed where Wendy's quality positioning has the strongest appeal and are focusing our marketing and menu efforts on the consumer segments identified that represent the greatest growth opportunity. Our efforts are targeted towards their specific need states while consistently reinforcing Wendy's leadership in food quality and value. We have translated these insights into a brand essence framework, a North Star that serves as guiding principles for the entire organization. This framework clarifies how we set priorities, elevate our brand, communicate our value and enhance the customer experience.

Going forward, it will guide not only our marketing approach, but decision-making around menu and operational priorities throughout the organization, enabling better alignment and execution in everything we do and keeping us focused on being squarely better than anyone else in QSR. Our learnings have already informed a new marketing and menu approach, which has significantly strengthened our marketing calendar for 2026. We're taking a balanced approach across core, innovation and value offerings, supported by improved messaging that connects with customers in socially and culturally relevant ways.

In addition, we've established a more disciplined programming structure to ensure a steady stream of new news that keeps the brand top of mind and supports higher customer frequency while providing restaurant teams adequate time to train and execute with excellence. We're taking meaningful action to strengthen our everyday value offerings, centering on a new strategic platform as opposed to short-term promotions. In January, we built on the brand equity of Biggie and launched new Biggie Deals as our everyday value architecture, a tiered structure at \$4, \$6 and \$8 price points, this isn't a limited time offer.

It's a permanent value platform to broaden our appeal, give customers more choice and capture incremental eating occasions like snacking at attractive price points. On the premium side of our menu, the segmentation study reaffirmed that Wendy's quality remains a core differentiator compared to competitors, and we're focused on highlighting that for more consumers. Quality leadership starts with our core menu. Our hamburgers are what Wendy's is famous for, and we will bring consumers' focus back to what makes Wendy's different and special.

Our brand was built on serving the best-tasting hamburgers in QSR using fresh, never frozen beef, and we will reestablish that position in 2026. This starts with a new Cheesy Bacon Cheeseburger launching next week, and you'll continue to see hamburger innovation as we move throughout the year. Additionally, we were pleased by the strong response to the launch of our chicken tenders, and we are continuing to build on that momentum by leveraging the quality of our product to expand our chicken offerings.

Next week, we're bringing new and exciting news to our chicken menu with the launch of a Chicken Tenders Ranch Wrap. In 2026, we will prioritize meaningful innovation across both hamburgers and chicken, focusing on launches that restaurants can execute with excellence while reinforcing our quality positioning. In addition to a new menu approach, we are elevating the effectiveness of our marketing and optimizing our mix by allocating more spend towards digital, social and streaming platforms.

We are increasing culturally relevant marketing in these channels, leveraging our consumer segmentation insights and new data and analytics capabilities for more targeted messaging. Maintaining top-of-mind awareness is important for Wendy's. We've significantly increased our always-on social engagement, and that awareness will translate into traffic over time. As we continue to incorporate learnings to enhance the menu, strengthen our marketing calendar and improve messaging and media effectiveness, we expect momentum to build sequentially as we move through 2026.

Moving on to our next 2 pillars of Project Fresh, operational excellence and system optimization, both of which are centered on elevating the customer experience and improving franchisee economics. Well-run restaurants drive sales and profitability, and our U.S. company-operated restaurants continue to serve as a powerful proof point that demonstrates the benefits of strong operational execution. Our U.S. company-operated restaurants outperformed the overall system by 310 basis points in 2025, demonstrating that when we execute with excellence, our customers respond.

Throughout the year, our operational initiatives drove improvements in customer satisfaction scores, including accuracy, taste and friendliness. Operational excellence starts with what we call people activation, which is about having the right capabilities and experience in our restaurants. We completed this initiative across U.S. company-operated restaurants last year, which strengthened our company-operated restaurant teams, and we have been sharing these learnings with franchisees.

We've made progress on rolling out enhanced training and have implemented a new learning management system specifically designed for restaurant employees. We are partnering with franchisees to extend the performance management strategy implemented at U.S. company-operated restaurants more broadly across the system. This ensures accountability to a consistent cycle of planning, managing and evaluating operational performance by restaurant teams to improve the customer experience.

Our field operations team is central to scaling people activation and enhanced training across the U.S. system. Based on the benefits we saw last year, we're further expanding our field operations team in 2026, allowing them to spend more time in restaurants, providing greater support, coaching and training in close partnership with franchisees. Our franchisees have responded positively to these operational initiatives, recognizing their direct benefit to customer satisfaction and sales.

We expect further adoption of these initiatives to positively impact results as we move through 2026. We're also continuing to add capabilities to our restaurant technology that will make it easier for our restaurant teams to execute with excellence. We're focused on improving order accuracy, a critical driver of customer satisfaction. And this month, we'll begin rolling out software enhancements to our kitchen order screens to streamline the preparation process and make it easier for our restaurant teams to deliver the right order every time.

We're also completing an initiative to modernize our restaurant architecture, enabling a substantial increase in product and promotion testing, reducing deployment time lines for new product launches and allowing us to bring innovation to life faster and more efficiently across the system.

Turning to system optimization, which is about having the right footprint in each market to improve franchisee economics and enhance the customer experience. By closing consistently underperforming restaurants, we are enabling our franchisee partners to increase focus on locations with the greatest potential for profitable growth. Since we announced this program in November, we have been working with our franchisees to evaluate restaurants on a store-by-store basis and make collaborative decisions to optimize performance across the U.S. system as One Wendy's.

Under this program, we expect approximately 5% to 6% of U.S. restaurants to close, including 28 restaurant closures that occurred during the fourth quarter of 2025 with the remaining closures expected during the first half of 2026. We are also working with franchisees to better align operating hours to demand, particularly for the morning daypart. While many restaurants perform well at breakfast, we recognize it may not work in every restaurant as certain markets have customer dynamics that do not support a thriving breakfast business.

To strengthen franchisee profitability, we're providing more flexibility around operating hours for the morning daypart, which allows them to reallocate resources towards the greatest potential for growth across daytime, evening and late-night occasions. This positions the morning daypart to perform where it matters most, delivering greater value for customers while supporting franchisee profitability, and we continue to believe that breakfast is an important daypart for the U.S. system.

Moving forward, we will provide updates on our progress. The fourth pillar of Project Fresh is disciplined capital allocation, prioritizing investments with the highest return opportunities while sustaining our international expansion momentum. We are redeploying resources from U.S. development initiatives towards driving profitable AUV growth. This includes investments in field team resources to better support operational excellence in our restaurants, restaurant technology to improve workflow and digital infrastructure investments to improve our data capabilities that support marketing effectiveness and digital mix growth.

We also remain committed to returning cash to shareholders through our quarterly dividend. This balanced capital allocation strategy ensures we're investing in the growth initiatives that will drive long-term value creation while maintaining our commitment to shareholder returns. We are acting with urgency to execute our Project Fresh turnaround plan. While turnarounds take time, we're making bold decisions together as One Wendy's that will create a better future for all stakeholders.

Now turning to our outlook. 2026 is a rebuilding year, centered on the initiatives of our turnaround plan. Our outlook reflects the results of the decisions that we're making to strengthen the system and position the business for long-term success. We expect improvement in our performance as Project Fresh initiatives take hold. Our outlook also reflects the impact of a 53rd week, planned system optimization actions, including restaurant closures and the optimization of operating hours and the impact of challenging weather in the first quarter.

As a result, we anticipate global system-wide sales to be approximately flat to the prior year and expect U.S. same-restaurant sales to improve as we move throughout 2026. Moving to international. Our international business remains an important growth engine, and we're building on the strong momentum we achieved in 2025. We expect continued robust net unit growth and anticipate approximately the same number of international net new units in 2026 as in 2025.

We anticipate adjusted EBITDA to range from \$460 million to \$480 million, which reflects the impact of system optimization and higher G&A expense compared to the prior year, driven by a reset of incentive and stock compensation. We expect adjusted EPS in the range of \$0.56 to \$0.60 per share. Finally, we expect free cash flow of \$190 million to \$205 million. Before I close, I'll turn it over to Suzie to provide more details on our fourth quarter results and outlook. Suzie, over to you.

Suzanne Thuerk

Chief Accounting Officer

Thank you, Ken, and good morning, everyone. I'll begin with our fourth quarter results, then provide more details on our outlook for 2026 before closing with our capital allocation priorities. In the fourth quarter, global system-wide sales declined 8.3% on a constant currency basis, and U.S. same-restaurant sales declined 11.3%, driven by marketing spend, which was down significantly in addition to a tough comp with our SpongeBob collaboration in the prior year.

This was partially offset by continued strength in our international business with system-wide sales growth of 6.2%. The decline in U.S. same-restaurant sales was driven by a decrease in traffic, partially offset by a higher average check. Same-restaurant sales at our U.S. company-operated restaurants outperformed the U.S. system by 410 basis points, driven by improvements in customer experience. Many of our franchisees have already begun implementing operational improvements, and we're making progress scaling these initiatives across the broader system as we execute on our Project Fresh turnaround plan.

The outperformance at company-operated restaurants was also supported by strong delivery growth and benefits from the continued rollout of digital menu boards and Fresh AI automated ordering technology. Our U.S. digital sales grew 2% compared to the prior year, driven by continued growth in our loyalty program, bringing U.S. digital mix to an all-time high of 20.6% in the fourth quarter. Shifting to our International segment. The Wendy's brand continued to demonstrate strong momentum globally, delivering system-wide sales growth of 6.2% in the fourth quarter, driven by new restaurant openings across key growth markets.

Growth was led by Asia Pacific and Latin America with strong performance in key markets such as the Philippines and Puerto Rico. We continue to see healthy underlying brand strength in Canada, gaining share in the QSR burger category throughout the year despite broader QSR traffic softness and a challenging competitive environment during the fourth quarter. Overall, our international results underscore the strength of our global growth model, enabled by the investments we are making in regional capabilities, which continue to drive a robust development pipeline.

Now moving to the P&L for the fourth quarter. Total adjusted revenue was \$439.6 million, a decrease of \$19.7 million compared to the prior year. This was driven by lower franchise royalty revenue due to the decline in U.S. same-restaurant sales as well as lower franchise fees. Global company-operated restaurant margin was 12.1% for the fourth quarter and U.S. company-operated restaurant margin was 12.7%. U.S. company-operated restaurant margin declined compared to the prior year, primarily due to a decline in traffic, commodity inflation and labor rate inflation.

These were partially offset by an increase in average check and labor efficiencies. Adjusted EBITDA was \$113.3 million, which was down \$24.2 million versus the prior year, primarily driven by lower net franchise fees, lower franchise royalty revenue and the decrease in company-operated restaurant margin. Adjusted earnings per share was \$0.16 in the fourth quarter. Moving on to cash flow and our balance sheet. On a full year basis in 2025, we invested \$140.3 million across capital expenditures and our build-to-suit development program.

Capital expenditures included \$52.4 million in technology initiatives such as digital menu boards and continued investments in our app and digital capabilities to enhance the customer experience and enable more targeted effective marketing. We also invested \$69.6 million in restaurant development across company-operated new builds and investments in our build-to-suit program.

Turning to free cash flow. We generated \$205.4 million of free cash flow for the full year. Our free cash flow enables us to fund strategic investments while continuing to return capital to shareholders. Through the end of fiscal year 2025, we repurchased 14.4 million shares for approximately \$200 million. In total, we returned \$330 million to shareholders through dividends and share repurchases, an increase of over \$48 million compared to the prior year.

In the fourth quarter, we issued \$450 million of whole business securitization notes using the proceeds to repay \$50 million of debt, which matured in December of 2025 and refinanced \$350 million of securitization notes maturing in September of 2026. The weighted average interest rate for the newly issued notes is 5.4%. We ended the year with \$340 million of cash on the balance sheet and a net leverage ratio of 4.8x.

Now turning to our financial outlook for 2026, which reflects the 53rd week in the fiscal year as well as the impact of the actions we are taking today to execute against our strategic plan that will drive long-term profitable growth. We expect global system-wide sales to be approximately flat for the full year. This reflects roughly 2% growth from base business improvements and international expansion and a 2% benefit from the 53rd week, offset by a 4% impact from our system optimization initiatives.

Turning to the shape of the year. We anticipate U.S. same-restaurant sales for the first quarter to be down year-over-year with sequential improvement throughout the year as initiatives to revitalize the brand and improve operations begin to take hold. We expect U.S. company-operated restaurant margin of 13%, plus or minus 50 basis points. This includes our outlook for labor inflation of approximately 4% and a commodity cost increase of approximately 4%, reflecting the continued inflation in beef prices as well as investments to improve the quality of our products, including upgraded chicken fillets and new buns.

We expect G&A to be approximately \$295 million. The increase versus the prior year is primarily driven by resetting our incentive compensation plan and higher stock compensation as we lap the favorable impact from the departure of the company's previous CEO in 2025. We expect adjusted EBITDA of \$460 million to \$480 million, reflecting the resetting of incentive and stock compensation and the impact of lower adjusted revenues related to our system optimization initiative.

Below the operating line, we expect approximately \$140 million of interest expense, reflecting the impact of debt refinancing in the fourth quarter of 2025 as well as a tax rate of approximately 30%. Taking all of these items into account, we expect adjusted EPS in the range of \$0.56 to \$0.60 per share. Free cash flow is expected to be between \$190 million and \$205 million, reflecting disciplined capital allocation, including capital expenditures and build-to-suit investments between \$120 million and \$130 million.

Moving on to capital allocation. Our first priority continues to be investing in the business. As we've outlined in our Project Fresh initiative, this means prioritizing AUV growth in the U.S. and net unit development internationally. As a result, we're reducing capital allocated to our build-to-suit development program by approximately \$20 million compared to the prior year. Our second capital allocation priority is paying an attractive dividend.

And today, we announced our regular quarterly dividend payment of \$0.14 per share, reinforcing the importance of the dividend within our capital allocation approach. Our third priority is maintaining a strong balance sheet. We continue to target a net leverage ratio of 3.5 to 5x adjusted EBITDA. We do anticipate remaining near the top end of our range in 2026 as we implement our Project Fresh initiatives, but expect a natural reduction in our leverage ratio over time as we realize the benefits of our turnaround.

Our fourth priority is returning excess cash to shareholders through opportunistic share repurchases. We currently have approximately \$35 million remaining on our existing share repurchase authorization that expires in February 2027. In closing, our fourth quarter results aligned with our expectations for a challenging quarter. We will maintain financial discipline to support the company and franchisees as we advance our turnaround efforts. We are taking deliberate actions to strengthen our financial foundation and position the system for improved performance and long-term value creation for our shareholders. With that, I'll now turn it back to Ken.

Ken Cook

CFO & Interim CEO

Thank you, Suzie. 2026 will be a rebuilding year, and I am confident that we will execute on our Project Fresh initiatives to strengthen our foundation and position Wendy's for long-term success while delivering strong growth in our international business. We are focused on controlling what we can control and leaning into what Wendy's can do better than anybody else, delivering the highest quality food in QSR. We have all the ingredients needed to be successful, an iconic brand, a great team, passionate franchisees, improved capabilities and a strategic action plan to deliver results. I'll now hand it over to Aaron to share our upcoming Investor Relations calendar.

Aaron Broholm

Head of Investor Relations

Thank you, Ken. On March 10, we will participate in the Citibank Global Consumer and Retail Conference in Miami. And on March 11, we will be in New York City for the UBS Global Consumer and Retail Conference. If you are interested in joining us at one of these events, please contact the respective sell-side analyst or equity sales contact at the host firm. We will now transition to the Q&A part of the call. Due to the high number of covering analysts, please limit yourself to one question only. Operator, please queue up the first question.

Question-and-Answer Session**Operator**

[Operator Instructions] The first question comes from David Palmer of Evercore ISI.

David Palmer

Evercore ISI Institutional Equities, Research Division

Lots of great detail on this call. I guess when it comes to operations at digital, you have a lot of initiatives there. But I feel like when it comes to turnarounds in this space, it really comes down to that initial jolt around marketing and menu. And you had a pretty good idea towards the end of this last year with the tenders and it felt like a pretty good product. And so I'm just wondering how you're thinking about this year, the approach, the ideas, the execution on the marketing side. Help us imagine how things are going to evolve there in ways that you think might be more effective?

Ken Cook

CFO & Interim CEO

Yes. Great question, David. So I'll start by talking a little bit about what gives us confidence that the turnaround plan will work. The results that we delivered are well below our potential for sure. But we have all the ingredients needed to be successful. We have an iconic brand, determined employees, passionate franchisees, better data visibility and capabilities than we've ever had. We have great food, and we're approaching that all with a One Wendy's mindset.

Secondly, we understand the problem. We got away from what made us great. We allowed ops to drift, and we focus too much on sales overnight and discounting versus brand over time. We made some decisions that optimize the short term, but we're changing all that. We now have a clear North Star, which is our brand essence, and that will help us reestablish Wendy's as the highest quality hamburger in QSR. Also, we're executing the right plan, Project Fresh.

In terms of revitalizing the brand, we know who drives our business, and we know how to bring them in. We do have a new approach to both menu and messaging that you've already seen take hold in 2026. And we're focused on ops, deploying the playbook that we use to improve operational excellence in our company restaurants to the system. Additionally, we're making the right long-term decisions in terms of system optimization, optimizing our restaurant footprint, which will help improve franchisee economics.

So turnarounds take time. We'll see the ops metrics change first, followed by brand metrics and then traffic and sales. In terms of the calendar approach, which you mentioned, what's going to be different, there's going to be a lot of things that are going to be different. We have a new menu calendar framework. We've divided the year into 8 periods to make sure we provide sufficient new news throughout the calendar. We're marrying that up with top-of-mind culture events to make sure we stay socially and culturally relevant to our customers. And we're focused on the target segments.

We did a lot of customer segmentation work. We now know who drives our business and we know who to focus on, and we know who not to focus on. So both those pieces are important. One learning from 2025 around value, we swung the pendulum too far towards limited time price promotions instead of everyday value. We had this fantastic Biggie platform that we've now made even better with our Biggie Deals platform around \$4, \$6 and \$8, multiple price points, giving consumers more choice.

And we will continue to upgrade the quality on our menu across the board. We have new chicken sandwiches rolling out. We're going to do some things on the hamburger side and a lot more hamburger innovation. If you look back at 2025, we had 0 hamburger innovation in 2025. That is changing in 2026, starting actually next week with the launch of our new Cheesy Bacon Cheeseburger. So a lot of things are different. We're learning a lot and applying those learnings as quickly as possible.

Operator

The next question comes from Jake Bartlett of Truist.

Jake Bartlett

Truist Securities, Inc., Research Division

Yes. I'm hoping you can expand on that a little bit and some of the learnings, your work with Creed UnCo, the segmentation study that you did. What did you learn maybe a little more specifically that you didn't know before in terms of who your target customer is and who you thought it was before and who it actually is and how that's informing the approach going forward? Ken, you mentioned that we've already seen some of the changes to the approach. I just -- maybe just remind us what we've seen so far on that front? Or are you kind of referring to what's going to -- what we're going to see next week with the launch of the new burgers and the wrap?

Ken Cook

CFO & Interim CEO

Yes. Thanks for the question, Jake. In terms of the customer segmentation study, that was the first phase of the Creed UnCo engagement. So first phase and foundational in terms of a proven playbook. We completed that study in December. And the good news is Wendy's does have a very strong brand perception, very strong. But from a customer perspective, this -- the needs-based approach helps us move beyond the what to the why.

So segmenting customers based on need, why they are coming to Wendy's. Is it the quality of our food? Is it the price? Is it the abundance, convenience, snacking, what occasion are they coming in for? Is it for a dinner with family? Is it for a frosty to celebrate a kids game, all of those things, better understanding the why. Then that allows us to value the segments and divide them up into who is our primary target, who is our secondary and who should we not focus on at all because they represent very small pieces of our overall customer base.

This validated some things we already knew and did provide some new insights. But it helped us put the spotlight on so what? What are we going to do about these things? A couple of learnings and validations from the study where a big segment of our customers come to Wendy's for an everyday quality upgrade, especially hamburgers and our fresh never frozen beef. When we look back at 2025, we had 0 hamburger innovation. We didn't talk about our hamburgers and we didn't innovate on those. So that's changing this year.

We're going to have several hamburger -- premium hamburger LTOs starting next week with the launch of our Cheesy Bacon Cheeseburger. So -- that's a learning. That's a big difference. We also will be making quality upgrades across the menu. In a couple of months, we'll launch our new and improved chicken sandwich lineup, so both classic and spicy. Really excited about that, giving customers this everyday upgrade compared to what they can get from the competition.

Another learning was a big segment of our population comes to Wendy's for our sides, the sweet and savory aspect, our sides, our Frosty's and this snacking occasion. So again, reflecting backwards, that helps explain why Girl Scout Thin Mints was such a success in 2025. We also have a new and improved collaboration with Girl Scout Thin Mints Frosty launching next week. So really excited about that. And we will incorporate some of the sweet and savory dynamics in our March Madness campaign here next month.

And then 468, that snacking behavior did help inform the construct of our new Biggie Deal platform, putting that \$4 price point in there. So if you're coming to Wendy's and you don't want a full meal, you want to get a quick snack, you can do that through that \$4 price point, but also having a \$6 and \$8 for people who want more abundance, more value was really important. Another confirmation was really a large percentage of visits to Wendy's are on plant. When somebody leaves the parking lot or their driveway, they don't know where they're going to eat. And so that highlighted the importance to us to keep Wendy's top of mind and make sure we're in the consideration set.

So you've seen us significantly increase our social activity to help drive awareness, so we stay in the consideration set when people are coming to Wendy's. As importantly as who we are going to focus on, then we look at where we're not going to focus. So there's a very small portion of our customers are considered what I would call it adventurous heaters. So these people want very unique flavor profiles, kind of extreme innovation. And again, they represent a very, very small percentage of our total. We shouldn't focus on them.

When we look backwards at 2025, some of the collaborations we did were focused on this segment of the population and weren't broadly appealing enough to significantly move the needle for us. So we're going to move away from that. So I guess, in summary, what we've learned helps us target the customer segments we want to win with and it helps us be more relevant to them in terms of the menu choices we make, the messaging and the operations and is foundational to the brand essence that we've developed.

Operator

The next question comes from Margaret-May Binshtok of Wolfe Research.

Margaret-May Binshtok

Wolfe Research, LLC

I just wanted to ask, I remember you guys talked about expecting October to be the trough for the year. Could you give some color on the cadence of comps through November and December? And what do you see exiting the quarter into January?

Ken Cook

CFO & Interim CEO

Yes. Great question, Margaret. So yes, October was the trough for us. November and December were better than October, which is great. In terms of -- as we exited 2025 and entered 2026, we did see some improvements in early January. And then in the middle of January, we launched our new Biggie Deal platform, which we are really excited about and pleased with so far. But then we were met with some significant weather disruption. We ended January down about 8% in terms of U.S. SRS.

We do expect the full first quarter to be a little bit better than that. So we're excited about the established value platform and the fact that we're talking about it in terms of Biggie, this distinctively Wendy's asset. Next week, we have the Girl Scout Thin Mint Frosty, which now has both a swirl and a fusion option, which we think is really going to resonate with our customers. We have leveraging the Chicken Tenders launch in the fourth quarter. We're innovating off that.

We have a new Chicken Tenders Ranch Wrap that launches next week. And then back to hamburger and premium high-quality hamburgers, we have Cheesy Bacon Cheeseburger that launches. So -- all of these things are what makes us excited about 2026. We will build throughout the year. We've talked about 2026 being a rebuilding year. 4Q of 2025 is the trough, and we expect to improve throughout the year as we execute on our Project Fresh initiatives.

Operator

The next question comes from Brian Mullan of Piper Sandler.

Brian Mullan

Piper Sandler & Co., Research Division

Just a question on the system optimization efforts. With 5% to 6% of the U.S. system closing in the first half of the year, I guess, can you just talk about how exhaustive this process is, how flexible of an approach you're taking with franchisees? Meaning will this really be all the units that the franchisees have any desire to close and you'll be done after this? And then kind of just related to that, could you just comment on how this would impact the rental income line in '26, if you could put some parameters around that in the context of the guidance.

Ken Cook

CFO & Interim CEO

Yes, happy to. So system optimization is really about improving franchisee economics and improving the customer experience. We established a disciplined process with our franchisees to approach this restaurant by restaurant, working with them to make the best decisions that strengthen the system in the long term. Under this program, we closed 28 stores in the fourth quarter. The AUVs were -- had significantly lower than our overall average, which is to be expected. And we do expect to close around 5% to 6% of our U.S. restaurants under this program with the majority happening in the first half of 2026.

We started with our list of restaurants. We also went out and had a process where franchisees could submit the restaurants they want. We've done a very robust process evaluating trade area, operational metrics, the profitability, leveraging the new data we have on restaurant level economics. And we expect 5% to 6% of the U.S. system to be impacted by this. In terms of the impact on total sales, in total, system optimization, we expect to have about a 4% impact on global system-wide sales, and we expect this to have about a \$15 million to \$20 million drag on adjusted EBITDA for the full year, which is inclusive of everything under that program, including the rental income.

Suzanne Thuerk*Chief Accounting Officer*

Yes. The rental income for 2026 will be relatively flat. Obviously, it takes time to work with landlords and achieve what will be a win-win for both the franchisees and the Wendy's Company for those sites that we're in. So that will take a little bit longer to see the rental income impact versus the closures.

Operator

The next question comes from Jeffrey Bernstein of Barclays.

Jeffrey Bernstein*Barclays Bank PLC, Research Division*

Great. Ken, for a turnaround to work in a franchise model, it's obviously very delicate. It seems like it's kind of a house of cards here, and it's all about the franchisee buy-in. So my guess is over the past 90 days, you've had a fair amount of discussions with those franchisees. I know it's a question that's come up before. But with the challenging fourth quarter and a rebuilding year in '26, I'm just wondering if you can share kind of current sentiment.

I'm sure there are positives and negatives, but whether franchisees are aligned in terms of your approach to improving the comp, whether they're keen to push more value, whether there's any change in sentiment on unit growth, just an overarching discussion or perhaps color on just how franchisees are embracing the turnaround strategy.

Ken Cook*CFO & Interim CEO*

Yes. Thanks for the question, Jeff. Under the One Wendy's approach, franchisees are appreciative of the flexibility that we've been providing and our willingness to make these decisions to help improve overall franchisee economics. Under the One Wendy's mindset, we know that the success of our company depends on the success of franchisees and vice versa, which is why we elevated franchisee economics as a key priority for us.

Sales deleverage puts pressure on franchisee economics, and that is what we're seeing now. There's a wide range of situations in the U.S. We're working with franchisees on a case-by-case basis, partnering and leaning in where we can and then executing on the Project Fresh pillar around system optimization, optimizing the footprint. In terms of one thing I've learned over the last couple of months as we've executed these and begun down that path is the importance of communication. So we have -- obviously, we're making a lot of changes to the system around menu, around marketing, around operations, around system optimization.

Communication is critically important in that. So we have significantly increased how frequently we're communicating with the franchisees. I was actually on a call with franchisees yesterday as part of the One Wendy's approach, giving them a preview of the things that they were going to hear on the earnings call today. Pete and I were with franchisees 2 weeks ago, walking through all the details of system optimization, allowing them to ask questions in a very open environment.

Lindsay was on a call with franchisees a couple of weeks ago, walking them through the new approach to menu, messaging and how that was going to impact operations at the restaurant level. So that's critically important. Franchisees are appreciating the flexibility that we're giving and us working hand-in-hand with them to help improve overall franchisee economics.

Operator

The next question comes from Danilo Gargiulo from Bernstein.

Danilo Gargiulo

Bernstein Institutional Services LLC, Research Division

Can I want to go back on to the segmentation study. And frankly, I'm a little bit surprised to hear that the learnings of the customer segmentations where the relevance of the beef platform, the fresh never frozen. I think you mentioned also snacking, which I think are a core part of the DNA of the brand for a long time. So I'm wondering if you can maybe talk about the -- if there was some institutional knowledge that has been lost within the organization over time.

And if you can maybe expand on the internal turnover, employee engagement scores. Conversely, if you think that the real opportunity here is translating the inside or already inside the organization into actionable initiatives, is your current organizational structure and G&A investment sufficient to support that?

Ken Cook

CFO & Interim CEO

Yes. Great question, Danilo. So I think you're right. We had a combination of things that we knew that were validated through the Creed UnCo study and the customer segmentation study. And we did have some new insights, a combination of those things. But the focus is really on what are we doing about it. And I think it highlighted over the past, we had lost our focus a little bit on who the target segments were and how we're approaching menu and messaging.

So now with this refocused emphasis on everyday quality upgrades and making the menu better and highlighting the quality of our food relative to the competition, that will inform the menu strategy. It will inform the marketing strategy and how we tell our story to consumers. We have stood up a new -- as a result of this, we have instituted a new marketing framework, a process that provides discipline and consistency. We've divided the year into 8 periods to provide sufficient new news from a product perspective and new news that's relevant to our target segments.

Regular cadence for the restaurant teams that enable them to train appropriately and operate and execute these with excellence. And it helps us maintain balance in terms of core innovation and value. Window 1, we launched Biggie Deals. So very -- taking a very distinctive Wendy's asset, expanding that for the customer into this permanent value architecture, so we have everyday value that the customers can depend on and then talking about that. It does inform our decisions in terms of product quality enhancements. Chicken sandwiches, significant improvement in quality on a core menu item that we've had for 30 years.

We'll provide our customers an everyday upgrade versus what's on the market today. We're also having a bun upgrade coming soon, which we'll use on all our premium sandwiches. And another learning was making sure that we have this common thread of quality throughout everything that we do. And so you'll see that come to life in the product innovations that we have on the menu as well as how we talk about those throughout. It does take some time to build the foundation properly. The team is making a lot of progress, and we expect the benefit of these to increase throughout the year.

Suzanne Thuerk*Chief Accounting Officer*

And Danilo, I might add from an investment standpoint in G&A, we have strong free cash flow and our #1 capital allocation priority is investing in the business and our outlook for 2026 reflects those investments. Ken mentioned on the call, investments in field teams to better support our operational excellence in our restaurants. We saw that work with investments we made in 2025, and we're offering more investments in field resources in 2026 as well as international investments to support net unit development internationally.

Operator

The next question comes from Dennis Geiger of UBS.

Dennis Geiger*UBS Investment Bank, Research Division*

Wondering if you could talk a little bit more about the Project Fresh rollout and maybe thinking about the timing for the franchisees to have a lot of the capabilities that the company stores have currently. I want to make sure maybe that that's the right way to think about it, Ken. And just curious how we think about that, how we think about that timing and ultimately, thinking about that gap in comp performance and kind of narrowing that gap as the franchisees improve their performance as this rolls out.

Ken Cook*CFO & Interim CEO*

Yes, Dennis, it's a great question. Let me start by saying I'm very proud of the U.S. operations team. When you look at company restaurant performance versus the system, outperforming by 310 basis points in SRS for full year 2025 is really impressive. When you dive a level below that and see overall satisfaction was up 370 basis points year-over-year for company restaurants in the fourth quarter. When you look at accuracy, friendliness and taste, all of those elements were up over 300 basis points. So a great, great results from them.

And how we did that, great operations start with having great teams. People activation is about having the right capabilities and experience in our restaurants. And so it starts there and then enhancing the training, making sure that we're training all our employees on hospitality and how to serve the guests with excellence. We mandated that for restaurant teams to make sure we were delivering quality and brand standards across the system.

And then we implemented a very methodical approach to performance management and continuous improvement, making sure that each restaurant was focused on the 1 or 3 things that they had the opportunity to make the biggest improvement in, making sure we had disciplined action plans in place, making sure we had an accountability process behind that, where the district manager would come visit and review the progress that they were making.

And then that combined with daily operating plans to make sure the entire restaurant team was focused on executing the action plan. So -- we activated that in company restaurants in early 2025 and then started seeing big results in the second half of 2025. If you look at the first quarter, there was about a 20 basis point difference between company restaurant SRS in the system. That grew to a little under 2% next quarter and then 400 basis points plus in the back half of the year.

In terms of deploying that to the system, franchisees have been receptive to this. We have 20% of franchisees who have fully adopted the program that we rolled out, and we're working on deploying it with the rest of them right now. So I would expect to see the improvement to really start to take hold in the second half of 2026. But also remember, we keep pushing on our company-operated restaurants to continue to get better, right? There's no finish line here. We want to get a little bit better every single day. So we want to have some healthy competition in the system and see where we end up.

Operator

The next question comes from Gregory Francfort of Guggenheim Securities.

Gregory Francfort

Guggenheim Securities, LLC, Research Division

I just wanted to ask about breakfast. Can you remind us how many stores have it today? And the flexible changes, how would you expect that, I guess, to impact that number over time? And then you talked about redeploying those hours into late night. Just any framing for the expectations for franchisees? Is this -- they're open up to midnight now and they still open until 2:00 a.m. going forward? Just any thoughts on strategy-wise, how that helps.

Ken Cook

CFO & Interim CEO

Yes. So breakfast remains an important daypart for the system. The large majority of the system is going to stay in breakfast. We're not pulling out. We're working with franchisees right now to finalize those exact numbers, and we'll share updates as we go along. This is really a common sense decision, taking learnings from the past 6 years that we've been in breakfast plus taking into consideration the current environment. And ultimately, it was the right thing to do. It helps improve franchisee economics. And when they do make changes on the breakfast side, it enables them to start serving lunch earlier and focus their labor on dayparts with the highest potential, lunch, dinner and late night.

Late night was actually our best-performing daypart in 2025, and we think we have an opportunity to build on that. Even if you think about it just from a general manager perspective, if that general manager is getting spread throughout the day, if you take some hours off of that morning daypart, it allows them to focus more on dinner and late night. So that's how that will work.

We have a right to win in breakfast. If you look at the food that we serve, the Breakfast Baconator, the Burrito, which is my personal favorite, we upgraded our beverage lineup in 2025, hot brew, cold brew and sparkling energy and continue to focus on executing the local playbooks to help those restaurants succeed. In terms of the system-wide sales impact, the -- our estimated impact for breakfast is included in that 4% system optimization number that we provided. And again, we'll provide updates as we continue to work with franchisees and finalize the plans.

Operator

The next question comes from Jim Salera of Stephens Inc.

James Salera

Stephens Inc., Research Division

Ken, I was hoping you could offer some thoughts maybe at a higher level on how your expectations for QSR as a whole is going to progress this year. We've seen the industry pressured, obviously, around traffic and consumer being still very kind of value conscious kind of continuing the trend from last year. Is the LTO framework that you set up this year more of kind of sharpening your elbows to take more of a piece of a smaller pie? Or is it aimed at really driving consumers that may have lapsed from traditional QSR occasions and pulling them back into the category?

Ken Cook

CFO & Interim CEO

Yes. Thanks for the question, Jim. We expect the consumer to remain challenged throughout 2026. So we don't expect any big changes there, which means it does end up being a share gain primarily. So we're really pleased with the way that we've set up the year. So launching this new Biggie Deals platform was important for us. It provides customers value that they can rely on every single day. The way we're talking about it, giving customers more choice, this \$4, \$6 and \$8 price point, \$4 Biggie bites attracts customers who are looking for that lower price point and the customers that we've identified who come to Wendy's for more snacking occasions.

And then we've intentionally designed the tiers of this to provide more value as you move up that chain. So \$4, \$6 and then \$8, the \$8, you get 2 sandwiches, fries and a drink. So full meal, 2 sandwiches, highest quality beef, highest quality food, fresh never frozen beef. So excited about that and a lot of abundance. And we're talking about it. So this is the first time we've advertised our Biggie platform since 2024. We do expect this to improve our worthwhile pay metrics and don't think we need to go deeper to kind of chase the price point below where we've set it now.

The other thing that I would say is really refocusing our efforts on the Wendy's quality difference. We'll see that from the operations perspective. If you look at what we're doing, rolling out the action plans from company restaurants to the system. When you look at system optimization and potentially closing 5% to 6% of the worst-performing restaurants in the U.S. that -- all those things are going to improve the customer experience, combined with a new marketing approach that highlights the value or the quality that Wendy's brings to the table, we think that will help us continue to improve comps as we move throughout 2026.

Operator

The next question comes from Andrew Charles of TD Cowen.

Andrew Charles

TD Cowen, Research Division

The dividend payout ratio is approaching 100% in 2026, at the high end of your target leverage ratio. So I'm curious what levers do you have in plan to sustain the dividend should the sequential U.S. sales improvement not to materialize the slope you expect or more investments required in the turnaround?

Ken Cook

CFO & Interim CEO

Yes, it's a great question. We're committed to the dividend. We have a very balanced capital allocation policy. Priority #1 is investing in the business. We invested \$140 million in CapEx in 2025. We'll invest another \$120 million to \$130 million of CapEx in 2026. We still have a lot of cash on the balance sheet, \$340 million, which provides us the flexibility to potentially acquire restaurants under the system optimization pillar if we decide to.

And then we have the \$100 million -- approximately \$100 million of dividend funds to pay out. Still deliver very strong cash flow, \$200 million in 2025, \$200 million in 2026, and we still have a \$300 million revolving credit facility. So feel good about overall liquidity, feel good about the flexibility that we have, and we are focused on executing the Project Fresh turnaround.

Operator

The final question today comes from Lauren Silberman of Deutsche Bank.

Lauren Silberman*Deutsche Bank AG, Research Division*

I wanted to go back to the comp side. I know that January is challenging with weather. I'm just trying to understand like underlying trends and what you're assuming as we move through Q1. And then it seems like the guide implies comps of 1% to 2%. So can you just help us understand like the magnitude of the sequential improvement that you expect as we move through the year?

Ken Cook*CFO & Interim CEO*

Yes. Thanks, Laura. So yes, it's -- January was a bumpy month. We did see improvements to start the year. So we saw some incremental improvement from where we exited 2025 into 2026. And then we were faced with significant weather disruption. January was down 8%. We do expect Q1 to come in a little bit better than that as we continue to see the benefits from the new Biggie platform as we continue to see the benefits from the new products that we're launching next week.

And as we continue to sharpen our messaging that really appeals to our core consumer. In a couple of months, we'll launch a new chicken sandwich lineup that's significant upgrade from where we are today and gives customers an everyday upgrade relative to what's available in the market. We think that will be another boost. And then as all these things work together, all the levers of Project Fresh, system optimization as operational excellence initiatives take hold and our new and improved approach to menu and messaging, we expect sales to continue to improve as we move throughout 2026.

Aaron Broholm*Head of Investor Relations*

That was our last question of the call. Thank you, Ken and Suzie, and thank you, everyone, for joining us this morning. Have a great day.

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